

PUBLIC DISCLOSURE

OCTOBER 1, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BOSTON BANK OF COMMERCE

133 FEDERAL STREET
BOSTON, MA 02110

DIVISION OF BANKS
100 CAMBRIDGE STREET
BOSTON, MA 02202

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Boston Bank of Commerce prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated " Outstanding "

An institution in this group has an outstanding record of ascertaining and helping to meet the community development needs of its delineated community, especially low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Boston Bank of Commerce has demonstrated an outstanding level of community development lending, qualified investments, and services. The institution has concentrated its efforts by targeting low- and moderate- income individuals and small businesses especially in the Boston Empowerment Zone. Additionally, the bank maintains equity interests in limited partnerships, property, and investments that develop and manage affordable housing and foster community development. The institution exhibits an excellent responsiveness to the community economic development needs in its assessment area.

The bank provides a substantial level of community development services by providing financial expertise to many small businesses and local non-profit agencies and organizations. Boston Bank of Commerce remains a valuable resource to its local community by offering itself as a conduit between the financial establishment, outside funding sources and the local community. Most of the bank's efforts are targeted towards economic development within the Boston Empowerment Zone.

PERFORMANCE CONTEXT

Description of Institution

Boston Bank of Commerce (BBOC) is a minority owned, commercial bank with \$75 million dollars in assets. The bank's staff consists of twenty-three employees, two of whom are bilingual. The bank operates one full service branch in the Dudley Square section of Boston, which is located in the designated Boston Enhanced Enterprise Community (Enterprise Zone). Its executive office is located in downtown Boston. Since the last examination, the bank has closed its downtown retail branch operation, however it continues to provide limited services at the downtown Boston office.

The lending focus of the bank has changed since the previous examination. The bank has shifted from being primarily a residential and consumer lender to being a community development lender, providing credit to small businesses and not-for-profit organizations. BBOC sought and received designation as a Community Development Financial Institution (CDFI) from the United States Treasury Department in July 1997. CDFI's are private-sector, financial intermediaries with community development financing as their primary mission. CDFI's seek to make loans and investments that conventional financial institutions would consider high risk or unbankable. As a designated CDFI, the bank has attracted deposits from financial institutions seeking CRA credit for their investment in a CDFI. Boston Bank of Commerce is the only CDFI designated bank in the Commonwealth of Massachusetts.

The bank's compliance with the Community Reinvestment Act (CRA) was deemed "Outstanding" at the previous Massachusetts Division of Banks examination dated December 4, 1995, as well as the FDIC examination dated February 18, 1997.

The size and composition of the bank's loan portfolio has changed since the previous examination. There has been an 18 percent reduction in the size of the portfolio during the period December 31, 1996 to June 30, 1998. Gross loans exceeded \$45 million dollars in December 1996 while the level as of June 1998 stands at \$37 million. The composition of the loan portfolio reflects a shift away from residential loans on 1-4 family properties, which comprised 43.3 percent of the portfolio at the previous examination, to its current level of 33.9 percent. The amount of commercial and commercial real estate loans within the portfolio now exceeds the residential 1-4 family loan amount, standing at 36.2 percent. The remainder of the portfolio is comprised of multi-family loans at 17.7 percent, consumer loans at 6.5 percent and other loans at 5.7 percent.

Description of Assessment Area

Boston Bank of Commerce's assessment area is comprised solely of the City of Boston. Boston contains a total population of 575,000 and is entirely located within the Boston Metropolitan Statistical Area (MSA). The bank's lending activities are centered in the Boston Enhanced Enterprise Community Area (Enterprise Zone). The Enterprise Zone is

5.8 square miles, encompasses 12 percent of Boston's land area and 9.9 percent of the city's population. The demographics of the Enterprise Zone contrast greatly with that of the city overall. The Enterprise Zone has a population that is 86.0 percent minority, compared to 41.0 percent citywide. Over 36.0 percent of the population live below the poverty level, which contrasts with 17.6 percent citywide.

The assessment area contains a total of 227,958 households, of which 117,656 or 51.6 percent are considered family households. Residential 1-4 family units represent 52.8 percent of all housing stock. Only 28.1 percent of all units are owner-occupied, while 62.9 percent are rental. The vacancy rate in the City of Boston is approximately 8.9 percent. The median housing value is \$191,894.

Of the total households, 16.2 percent are low-income; 46.95 percent are moderate-income; 25.8 percent are middle-income; and 10.2 percent are upper-income. In addition, 17.6 percent of all households in the assessment area are below the poverty level. The Boston MSA median family income for 1997 and 1998 is \$59,600 and \$60,000 respectively.

Boston Bank of Commerce's assessment area is comprised of 169 census tracts. There are 38 low-income census tracts, 76 moderate-income census tracts, 37 middle-income census tracts, 13 upper-income census tracts and 5 tracts labeled as N/A within the bank's assessment area.

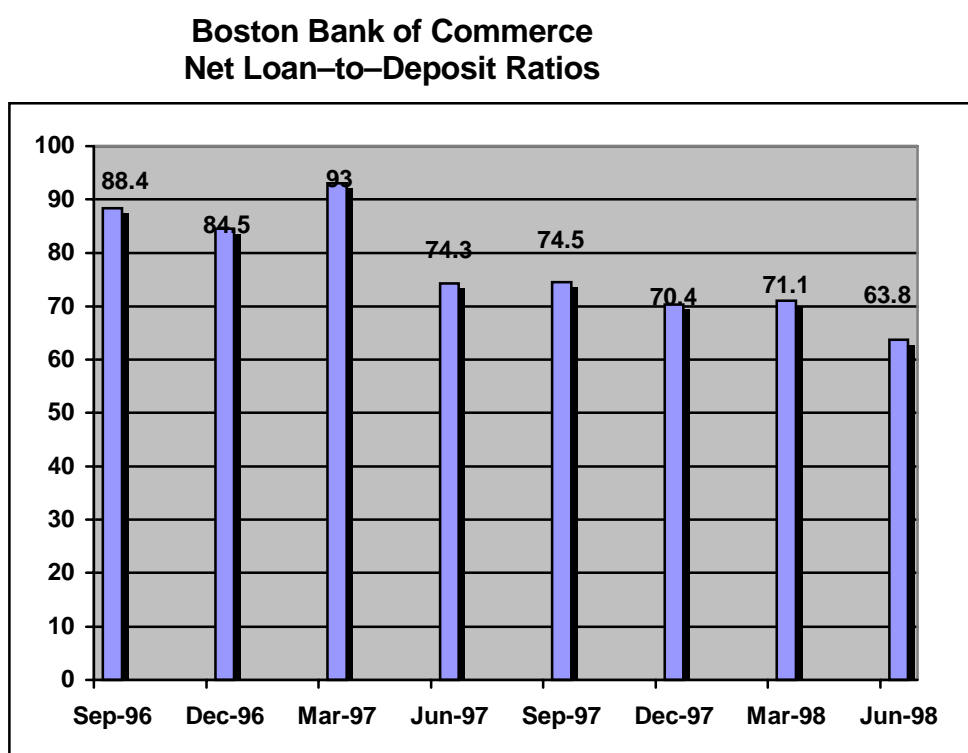
The assessment area, as currently defined, appears to meet all technical requirements of the regulation in that it does not arbitrarily exclude low- and moderate-income areas. In addition, the area is made up of whole geographies and does not extend beyond state boundaries, as required.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

A comparative analysis of Boston Bank of Commerce's quarterly net loan-to-deposit ratios for the two-year period from September 1996 through June of 1998 was conducted during this examination. Using the bank's quarterly call reports, the average net loan-to-deposit ratio for the eight-quarter period is 77.5 percent. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits.

The following graph is provided for further analysis.



The net loan to deposit ratio stands at 63.8 percent as of June 30, 1998, and has exhibited a decreasing trend since September 1996 when it was at 88.4 percent. This ratio has decreased over 27 percent for the period and has averaged 77.5 percent over the previous eight quarters. It is anticipated that this ratio will stabilize and decline slightly as management continues to realign its balance sheet.

The institution is primarily a portfolio lender however, it did sell \$3.2 million dollars in loans on the secondary market in the second quarter of 1998 to enhance asset quality and profitability. The selling of these loans had an adverse effect on the loan to deposit ratio. Had the institution retained these loans, the ratio would have been reflected as 69.6 percent for the quarter and enhanced the average net loan-to-deposit ratio.

As shown above, there has been some fluctuation in the ratio over the eight quarters, characterized mostly by decline. As stated previously, the size and composition of the loan portfolio has changed since the previous examination. The loan portfolio has experienced an 18 percent decrease in dollar amount while deposits have grown by 12.2 percent over the same time period. Asset size of the institution has increased by 23.2 percent over the same timeframe. These fluctuations in loan portfolio, deposit and asset size have all been part of management's efforts to realign the institution balance sheet in order to enhance its viability and return to profitability.

The asset size of the institution has grown 23.2 percent since the previous examination. Asset growth has occurred in the securities portfolio, as the loan portfolio has decreased. The loan-to-asset ratio has declined significantly since the previous examination from 73.2 percent to the current level of 47.4 percent. The average loan-to-asset ratio over the previous eight quarters rests at 62.7 percent.

Given the institution's strategy to improve earnings and reorient the institution towards small business lending and community development lending, the average net loan-to-deposit ratio appears to be reasonable, and meets the standard for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

An analysis of lending inside the institution's assessment area was performed by reviewing the 1997 and year to date September 30, 1998 Home Mortgage Disclosure Loan Application Registers (LAR). Applications received were sorted by census tract and assigned to the appropriate city or town.

The bank reported only five HMDA reportable loan applications on the LAR for 1997 and no reportable loan applications year-to-date September 30, 1998. There were three originations reported; one inside the assessment area, two outside.

Analysis of mortgage originations was inconclusive due to the small number of originations.

In addition to HMDA reportable residential loans, management requested that examiners give consideration to small business and community development loans. The bank has concentrated its efforts toward the small business and commercial lending area since the last examination.

During the time period covered by this examination, January 1, 1997 through September 30, 1998, the bank originated 48 small business and qualified community development loans totaling \$10,360,575. The vast majority, 44, or 91.7 percent of the number and 91.6 percent of the dollar volume, of small business and community development loan originations were inside the bank's assessment area. One community development loan, originated inside the assessment area, would not be

considered a small business loan because the dollar amount of the loan exceeded \$1 million. The remaining 43 loans were under \$1 million.

A significant majority of the bank's lending activities has occurred inside the institution's assessment area. This level of concentration exceeds satisfactory levels of performance for these criteria.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

Since the bank reported only one HMDA reportable loan within its assessment area, an analysis of credit according to income level was not feasible.

However, at management's request, analysis of small business and community development lending was performed in relation to loans to businesses with gross revenues less than and greater than \$1 million. This analysis revealed that of the 43 small business loans originated inside the assessment area, 40 were to businesses with annual gross revenues under \$1 million. Of the three loans to businesses with revenues over \$1 million, one was to a non profit entity. Of the 41 loans to businesses with annual revenues under \$1 million, 15 were to non-profit entities.

Analysis of lending to businesses of different sizes indicates that the vast majority (93 percent), of the bank's lending activity was to businesses with annual revenues of less than \$1 million. Additionally, the bank plays a major role in its community by providing short-term financing for a large number of small businesses and non-profit organizations and agencies that maintain banking relationships with the institution. All short-term lending activity is inside the assessment area.

Given the large number of loans made to businesses with revenues under \$1 million and the large number of short-term loans that the institution makes, its performance in lending to businesses of different sizes was determined to exceed the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of HMDA reportable loans extended within the various census tracts contained in the bank's assessment area was conducted during the examination. The bank's assessment area is comprised of 169 census tracts. Of these census tracts, 38 are designated as low-income, 76 moderate-income, 37 middle-income, and 13 as upper-income. The remaining 5 tracts are labeled as N/A.

Analysis of mortgage originations extended within the various census tracts contained in the bank's assessment area was inconclusive due to the small number of originations.

An analysis of the geographic distribution of small business lending was performed by business address. The bank, because of its size, is not required to collect census tract

information on small business lending. However, examination analysis revealed that 42 of the 43 small business loans originated inside the assessment area were located in the Roxbury, Dorchester and Mattapan sections of Boston. All of those sections of Boston are included in the Boston Enterprise Zone. Therefore, the geographic distribution of the bank's small business lending activities meets the standards for satisfactory performance levels for this criterion.

EVALUATION OF COMMUNITY DEVELOPMENT AND INNOVATIVE AND FLEXIBLE LENDING

At management's request, in addition to the four lending performance criteria detailed above, a review of the institution's community development lending, as well as innovative and flexible lending was undertaken.

Massachusetts regulation 209 CMR 46.12 defines community development as affordable housing, community services, economic development, or community stabilization or revitalization of low- or moderate-income geographies. Economic development supports permanent job creation, retention, and/or improvement for persons who are currently low- or moderate-income, or supports permanent job creation, retention, and/or improvement in low- or moderate-income geographies targeted for redevelopment by federal, state, local or tribal governments.

Boston Bank of Commerce has played a major role in the effort to redevelop the City of Boston's minority and most economically challenged neighborhoods. Over the years, BBOC management has been a driving force to assist in stimulating and initiating action to revitalize these economically depressed areas. The following is a summary of the bank's community development loans and flexible lending activities.

Community Development Lending

As referenced above, virtually all of BBOC's lending activity has been within its assessment area and the Empowerment Zone. Many of the small business loans meet the definition of community development by virtue of their purpose and location. The following is a summary of additional community development lending activities during the period covered by the examination.

Columbia Plaza Associates (CPA) - CPA is a private partnership between African-American and Chinese-American investors designed to pool resources to promote further economic development within their respective communities. BBOC is the single largest shareholder at 11.0 percent.

BBOC loaned CPA \$2.6 million to purchase development rights from its former development partner to move forward with the construction of a 37-story office building adjacent to the Chinatown section of the City of Boston. The project is located in the bank's

assessment area. Groundbreaking for this project is anticipated in the second quarter of 1999.

Federal Home Loan Bank – Community Investment Program

- Center for Community Health, Education, and Research (CCHER) – this non-profit corporation located in Dorchester provides assistance and support for members of the Haitian community facing HIV/AIDS. BBOC applied for and received funding in the amount of \$137,000 for the purpose of purchasing property at 420 Washington Street Dorchester for affordable housing.
- Neighborhood Development Corporation (NDC) – Grove Hall - NDC is a non-profit corporation established to develop real estate projects as a component of economic development within the Grove Hall neighborhood. BBOC renewed its \$516,000 loan to NDC that is secured by a mixed-use building. The building serves as headquarters for NDC and houses twelve units of affordable housing. This loan was originally funded through the FHLB Community Investment Program.
- Abdul-Khallaq - BBOC applied for and received funding in the amount of \$284,000 for the purchase and development of affordable housing by this private developer.

Innovative and Flexible Lending

As mentioned previously, the bank plays a major role in its community by providing short-term financing for a large number of small businesses and non-profit organizations and agencies that maintain banking relationships with the institution. Many of the small businesses experience cash flow problems relating to payroll and vendor payment needs. The bank meets these short-term needs by providing short-term, unsecured credit on a regular basis. Non-profit customers experience cash flow problems resulting from slow remittances by state and federal agencies. Several of these non-profit agencies include the major health and hospital centers and clinics in the assessment area. Internal analysis reveals an average lending level of \$415,000 monthly. All short-term lending activity is inside the assessment area.

- **Qualified Investments and Grants**

In addition to community development lending, the bank requested that its qualified investments and services be considered.

The following lists the major investment initiatives that the bank has undertaken during the period examined:

Columbia Plaza Associates - BBOC added to its initial investment position in this development partnership by investing an additional \$283,000 in capital during the examination period.

Roxbury Corners Limited Partnership – BBOC has a 5 percent equity interest in this partnership which acquires, holds, and invests in affordable housing projects. BBOC increased its equity position to \$184,500 by investing an additional \$23,000 during the examination period.

Qualified grants

- Unity Visa Card – BBOC introduced this credit card program in 1995. One percent of each dollar charged is donated to support African-American charities. The charities include the Children's Defense Fund, Jackie Robinson Foundation, and NAACP Legal Defense Fund among others. Proceeds from the card amounted to \$39,000 in 1997 and \$30,050 year-to-date 1998.
- BBOC Contributions – the bank contributed to a number of area non-profits and qualified organizations such as Roxbury Community Health Center, Massachusetts Community Development Finance Corporation, Dimock Community Health Center and others. BBOC gave qualified grants of \$9,300 in 1997 and \$15,730 in 1998

- **Community Development Services**

Columbia Plaza Associates – The President /CEO/Chairman is a managing member of this partnership. CPA continues to serve as a catalyst for development in the bank's assessment area.

Roxbury Corners Limited Partnership – BBOC continues to maintain an active role in assuring the long-term viability of this project.

Grove Hall NDC – BBOC continues to lend its financial expertise to agencies such as NDC to assure the continued revitalization effort of the Grove Hall section of Boston. BBOC continues to be a catalyst and takes an oversight role to this long-term commitment and effort.

FHLB - BBOC continuously lends its expertise by filing applications for competitive funding for local groups, organizations, and developers through the Federal Home Loan Bank. The bank filed six applications during the examination period.

Various non-profit agencies:– BBOC provides financial expertise by developing business and strategic plans for many small business and local non-profit agencies and organizations. BBOC remains a valuable resource to its local community by remaining cognizant of various state and federal funding sources available to develop and revitalize its local community. The bank offers itself as a conduit between the financial

establishment, outside funding sources and the local community. Most of the bank's efforts are targeted towards economic development within the Empowerment Zone.

Director and Officer Community Involvement –

- Dimock Community Health Center(Roxbury) – An officer of the bank serves as treasurer
- Roxbury Comprehensive Community Health Center – The President/CEO serves as a board member and a director of the bank serves as CEO of this organization
- Urban League of Eastern Massachusetts – director
- Freedom House – non-profit community center in Roxbury – director
- Head Start – advisory committee
- Washington Street Business Association – Director and Treasurer
- Quincy/Geneva CDC(Roxbury) – Treasurer
- South End/Lower Roxbury Housing and Planning Coalition – member
- Roxbury Neighborhood Council - member

5. REVIEW OF COMPLAINTS

The bank's CRA Public Comment File and as well as Division files were reviewed. There have been no CRA related complaints since the last examination.

FAIR LENDING POLICIES AND PRACTICES

The bank has formulated and accepted a separate Fair Lending Policy and Procedures Guide since the previous examination. The Board of Directors approved the policy on June 28, 1997. It is comprehensive in nature and addresses specific areas such as loan review, staff training, fair lending procedures, loan application and evaluation process, as well as applicable rules and regulations regarding the Fair Housing Act, ECOA, HMDA, and the Consumer Credit Protection Act.

Boston Bank of Commerce appears to meet the level of satisfactory performance relating to Fair Lending Policies and Procedures.

STAFF TRAINING

Management appears to be aware of the necessity of staff training in all aspects of fair lending, however no formal training has been established.

STAFF COMPOSITION AND COMPENSATION

The bank employs 23 people, 15 of whom are minorities. Second languages spoken include Bengali and Spanish.

All authorized loan originators are salaried employees and therefore are encouraged to originate loans of all dollar amounts.

OUTREACH

The bank has developed relationships with several area organizations, which assists it in monitoring community needs as well as informing the community of the credit services offered by the institution. BBOC management maintains membership and/or close relationship with many local community development and non-profit organizations and agencies.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

The bank evaluates its credit product offerings on a regular basis. The bank participates in both public and private subsidy or guarantee programs that provide financing on an affordable basis in targeted neighborhoods and communities.

MARKETING

Most of the bank's marketing efforts are geared towards image related advertising rather than product related.

CREDIT EDUCATION

The bank has not sponsored any credit education seminars since the previous examination. The bank does counsel each applicant on an individual basis.

COUNSELLING

Loan personnel offer assistance to all credit applicants and borrowers as needed. The bank makes appropriate referrals as necessary.

SECOND REVIEW PRACTICES

The Loan Review Committee looks at all applications from low- and moderate-income individuals that are slated for denial prior to adverse action notices being sent to the applicant.

INTERNAL CONTROL PROCEDURES

The compliance administrator monitors fair lending performance and reports to the board on a regular basis.

MINORITY APPLICATION FLOW

This category was not evaluated in regards to residential loans, due to the very small number of loans generated. However, the bank is a major component in the redevelopment of the minority communities in Boston.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

BOSTON BANK OF COMMERCE

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business October 1, 1998, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 19 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.